

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Looking Glass Regional Fire Authority</u>	County Clinton
Audit Date December 31, 2003	Opinion Date June 3, 2004	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State MI	ZIP 48823
Accountant Signature 			

Looking Glass Regional Fire Authority

Financial Report
December 31, 2003

Looking Glass Regional Fire Authority

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Looking Glass Regional Fire Authority

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The Board of Directors
Looking Glass Regional Fire Authority
Eagle, Michigan

We have audited the accompanying basic financial statements of Looking Glass Regional Fire Authority (the Authority) as of December 31, 2003 and 2002, and for the years then ended as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Looking Glass Regional Fire Authority at December 31, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 3, 2004

Management's Discussion and Analysis

Looking Glass Regional Fire Authority

Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statement of Net Assets, the Statement of Revenues, Expenses, and Charges in Net Assets, and the Statement of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, the Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the purpose of the Authority. The Authority was formed in October 2001 to operate, maintain, administer, and manage a joint fire department for the benefit of constituent municipalities, both Watertown Charter Township and Eagle Township. The Authority's income primarily comes in as contributions and service contract payments from Watertown Charter Township (65%) and Eagle Township (35%). This financial report represents the first two years of reporting by the Authority. The Authority contracted with the City of Portland, the Dewitt Area Emergency Services Authority, and Grand Ledge Area Emergency Services Authority for fire services for the years ending December 31, 2003 and 2002.

The following table shows the major components of net assets for December 31, 2003 and 2002:

Capital Assets	\$ 2,031,799	\$ 198,629
Other Assets	342,195	1,370,229
Total assets	2,373,994	1,568,858
Liabilities	228,407	70,139
Net Assets		
Invested in capital assets:		
Land	107,100	107,100
Construction in process	-	63,576
Equipment, net	1,924,699	27,953
Invested in capital assets	2,031,799	198,629
Restricted for equipment	39,639	1,262,590
Unrestricted		
Prepaid expenses	346	17,583
Available	73,803	19,917
Unrestricted	74,149	37,500
Total net assets	\$ 2,145,587	\$ 1,498,719

(Available unrestricted net assets would be divided 65/35 Watertown Township - \$47,972 and \$12,946/Eagle Township - \$25,831 and \$6,971, respectively)

Looking Glass Regional Fire Authority

Management's Discussion and Analysis (Continued)

The following table shows the major components of the increase in net assets for 2003 and 2002:

Eagle Township Contributions and Charges for Services	\$	752,794	\$	167,674
Watertown Township Contributions and Charges for Services		389,456		1,494,734
Interest		1,911		1,555
Contributions/Donations/Refunds		28,452		105,100
Expenses		(525,745)		(270,344)
Change in net assets	\$	646,868	\$	1,498,719

Capital Assets

Capital assets, consisting of land, building, equipment, and vehicles for a new station were added during 2003 and 2002 in the amounts of \$1,819,498 and \$199,686, respectively.

Contacting the Authority's Management

This financial report is intended to provide the participating townships with a general overview of the accountability for the money the Authority receives. If you have any questions about this report, the Authority may be contacted for additional information.

Looking Glass Regional Fire Authority

Statement of Net Assets December 31, 2003 and 2002

	December 31	
	2003	2002
Current Assets		
Cash and cash equivalents (Note 2)	\$ 286,664	\$ 1,262,246
Accounts receivable	55,185	90,400
Prepaid expenses	346	17,583
Total current assets	342,195	1,370,229
Capital Assets (Note 4)		
Capital assets not being depreciated	107,100	170,676
Other capital assets, net of depreciation	1,924,699	27,953
Total capital assets	2,031,799	198,629
Total assets	2,373,994	1,568,858
Liabilities		
Accounts payable	112,789	69,448
Retainage payable	101,049	-
Accrued wages and payroll tax payable	14,569	691
Total liabilities	228,407	70,139
Net Assets		
Invested in capital assets, net of related debt	2,031,799	198,629
Restricted for capital assets (Note 3)	39,639	1,262,590
Unrestricted	74,149	37,500
Total net assets	<u>\$ 2,145,587</u>	<u>\$ 1,498,719</u>

Looking Glass Regional Fire Authority

Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended December 31, 2003 and 2002

	Year Ended December 31	
	2003	2002
Operating Expenses		
Salaries and related expenses	\$ 94,133	\$ 15,503
Employee benefits/programs	16,809	-
Contracted services	141,909	218,936
Grant writing	5,000	15,000
Accounting fees	10,037	2,449
Advertising	2,255	4,032
Board expenses	428	1,829
Insurance	8,396	4,253
Supplies	116,700	2,616
Turnout gear	55,002	-
Training	8,506	-
Repairs and maintenance	20,919	-
Depreciation	22,886	1,057
Miscellaneous	22,765	4,669
Total operating expenses	525,745	270,344
Operating Revenues		
Operating contributions	331,100	161,100
Charges for services	141,909	218,936
Miscellaneous	782	100
Total operating revenues	473,791	380,136
Net Income (Loss) From Operations	(51,954)	109,792
Nonoperating Revenue		
Investment income	1,911	1,555
Capital Contributions	696,911	1,387,372
Change in Net Assets	646,868	1,498,719
Net Assets - Beginning of Year	1,498,719	-
Net Assets - End of Year	<u>\$ 2,145,587</u>	<u>\$ 1,498,719</u>

Looking Glass Regional Fire Authority

Statement of Cash Flows For the Years Ended December 31, 2003 and 2002

	Year Ended December 31	
	2003	2002
Cash Flows From Operating Activities		
Cash received from customers	\$ 177,906	\$ 128,636
Cash received from operating contributions	331,100	161,100
Cash payments to employees for services rendered	(94,133)	(15,503)
Cash payments to suppliers for goods and services	<u>(233,221)</u>	<u>(201,228)</u>
Net cash provided by operating activities	181,652	73,005
Cash Flows From Capital and Related Financing Activities		
Payments for the acquisition or construction of capital assets	(1,856,056)	(199,686)
Capital contributions from townships	<u>696,911</u>	<u>1,387,372</u>
Net cash provided by (used in) capital and related financing activities	(1,159,145)	1,187,686
Cash Flows From Investing Activities		
Interest received on investments	1,911	1,555
Net Increase (Decrease) in Cash and Cash Equivalents	(975,582)	1,262,246
Cash and Cash Equivalents - Beginning of year	<u>1,262,246</u>	<u>-</u>
Cash and Cash Equivalents - End of year	<u>\$ 286,664</u>	<u>\$ 1,262,246</u>
Reconciliation of Operating Income to Cash Flows From Operating Activities		
Operating income (loss)	\$ (51,954)	\$ 109,792
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Depreciation	22,886	1,057
Increase in accounts receivable	35,215	(90,400)
Increase in prepaid expenses	17,237	(17,583)
Increase in accounts payable	43,341	69,448
Increase in retainage payable	101,049	-
Increase in accrued wages and payroll taxes payable	<u>13,878</u>	<u>691</u>
Net cash provided by operating activities	<u>\$ 181,652</u>	<u>\$ 73,005</u>

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Summary of Significant Accounting Policies

Looking Glass Regional Fire Authority (the Authority) was established by the Township of Eagle and the Charter Township of Watertown. The Authority was incorporated in October 2001, under the provisions of Act 7, Public Acts of 1967, known as the Urban Cooperation Act of 1967. The Authority is governed by a board composed of the residents of each of the constituent Townships. The Authority was formed to operate, maintain, administer, and manage a joint fire department for the benefit of constituent municipalities.

The Authority contracted with the City of Portland, the Dewitt Area Emergency Services Authority, and Grand Ledge Area Emergency Services Authority for fire services for the years ending December 31, 2003 and 2002.

The accounting policies of Looking Glass Regional Fire Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments*, issued in June 1999.

Basis of Accounting - The accounts of Looking Glass Regional Fire Authority are organized as an Enterprise Fund, which is used to account for its operations as a provider of fire services. These services are financed primarily through user charges.

The accrual basis of accounting is used to account for the operations of this Enterprise Fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred, regardless of the timing of the related cash flows.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Accounts Receivable - The Authority's accounts receivable are comprised of amounts due from the participating townships stated at invoice amounts. The Authority has determined no allowance for uncollectible amounts is necessary.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 5 to 39 years.

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Summary of Significant Accounting Policies (Continued)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits

The Authority's cash and cash equivalents consist of bank deposits. The deposits were reflected in the accounts of the bank of the Authority (without recognition of checks written but not yet cleared or of deposits-in-transit) at \$284,564 and \$1,300,468 on December 31, 2003 and 2002, respectively. Of these amounts, \$200,000 and \$600,000, respectively, was covered by federal depository insurance, respectively. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Restricted-Net Assets

The Authority received \$1,170,000 prior to December 31, 2002, from Watertown Township to be used for the construction of the fire station, furnishings, and equipment. This amount was reflected as capital contributions for the year ended December 31, 2002, and the unspent contributions were reflected as net assets restricted for capital assets. During 2002, the Authority also received \$105,000 from outside sources as a capital contribution to be used exclusively for capital assets. During 2003, \$1,222,951 of these funds were used in the purchase of capital assets. At December 31, 2003, \$39,639 remained unspent and is reflected as net assets restricted for capital assets.

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2003 and 2002

Note 4 - Property, Plant, and Equipment

Cost of property, plant, and equipment and depreciable lives are summarized as follows:

	January 1, 2003	Additions	Retirements and Transfers	December 31, 2003	Depreciable Life-Years
Capital assets not being depreciated:					
Land	\$ 107,100	\$ -	\$ -	\$ 107,100	-
Construction-in-progress	63,576	-	(63,576)	-	-
Total capital assets not being depreciated	170,676	-	(63,576)	107,100	
Capital assets being depreciated:					
Fire station	-	1,085,218	63,576	1,148,794	39
Vehicles	-	547,497	-	547,497	15
Communication equipment	-	26,165	-	26,165	10
Shop equipment	1,920	26,174	-	28,094	7-15
Office equipment	1,350	49,805	-	51,155	5-12
Fire fighting equipment	25,740	121,197	-	146,937	7-10
Total capital assets being depreciated	29,010	1,856,056	63,576	1,948,642	
Total capital assets	199,686	1,856,056	-	2,055,742	
Less accumulated depreciation	(1,057)	(22,886)	-	(23,943)	
Net carrying amount	\$ 198,629	\$ 1,833,170	\$ -	\$ 2,031,799	

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2003 and 2002

Note 4 - Property, Plant, and Equipment (Continued)

	January 1, 2002	Additions	Retirements and Transfers	December 31, 2002	Depreciable Life-Years
Capital assets not being depreciated:					
Land	\$ -	\$ 107,100	\$ -	\$ 107,100	-
Construction-in-progress	-	63,576	-	63,576	-
Total capital assets not being depreciated	-	170,676	-	170,676	
Capital assets being depreciated:					
Shop equipment	-	1,920	-	1,920	7
Office equipment	-	1,350	-	1,350	5
Fire fighting equipment	-	25,740	-	25,740	7
Total capital assets being depreciated	-	29,010	-	29,010	
Total capital assets	-	199,686	-	199,686	
Less accumulated depreciation	-	(1,057)	-	(1,057)	
Net carrying amount	\$ -	\$ 198,629	\$ -	\$ 198,629	

Depreciation expense was \$22,886 and \$1,057 for the years ended December 31, 2003 and 2002, respectively.

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in the past two years.

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2003 and 2002

Note 6 - Commitments

At December 31, 2002, the Authority had outstanding commitments relating to building construction of a fire station in the amount of approximately \$961,000 and the purchase of a fire truck in the amount of approximately \$124,000. These commitments were funded from funds received from the participating townships during the fiscal year 2002, reflected as restricted net assets and future capital contributions from the participating townships. At December 31, 2003, the Authority had an outstanding commitment relating to firefighting equipment in the amount of \$40,207.

June 3, 2004

Board Members
Looking Glass Regional Fire Authority
P.O. Box 64
Eagle, MI 48822

Dear Board Members:

We have recently completed our audit of the financial statements of Looking Glass Regional Fire Authority (Authority) for the year ended December 31, 2003. We would like to thank all of the Authority's staff and Patti Schafer of Countryside Accounting for their cooperation during the audit. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Capitalization Policy

We understand the Board has authorized any equipment purchase exceeding \$1,000 be capitalized. During our audit, we noted two instances where individual items greater than that amount were not capitalized and audit journal entries were made to record those items as fixed assets. In addition, we noticed various equipment items being capitalized at the cost of the equipment only (excluding labor or installation costs). However, there were instances when the installation or labor costs were included in the asset recorded. Lastly, there were multiple items purchased (such as pagers) that exceeded the dollar threshold approved by the Authority's Board; however they were not capitalized due to the individual cost being less than \$1,000.

We recommend the Board implement a written policy with specific details of what will be capitalized. This should include a dollar amount for individual items as well as an amount in the aggregate. It should be documented as to whether labor and installation will be included in the amount capitalized and if the equipment is required to have a useful life greater than a certain amount of years. This will assist the Authority in determining what items should be capitalized and will maintain consistency throughout the capital assets recorded.

Personnel Policies

The Authority has a Policy and Personnel Manual which includes use of sick and vacation time. As we understand, the Authority does not honor sick and vacation days; however, this is not stated in the manual. We recommend the Authority review the Policy and Personnel Manual and add documentation as necessary to address the accumulated sick and vacation time not being paid out.

ACH Arrangements

Public Act 738 of 2002 allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

The Board should consider adopting a policy on ACH arrangements that includes all of the following:

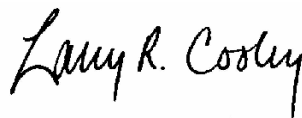
- Designation of an individual as the party responsible for approving payment, accounting, reporting and complying with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - Describe the goods or services purchased,
 - The cost,
 - Date of payment, and
 - The department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

Plante & Moran can provide a sample policy that you may wish to use as a guide.

Again, we would like to thank all of the Authority's personnel for their cooperation and patience extended to our staff during the audit process. We would be happy to answer any questions you have regarding the financial statements or to assist you with any other items.

Very truly yours,

PLANTE & MORAN, PLLC



Larry R. Cooley, CPA
Partner